

Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 IO-11 ISO-00 AID-05 CIAE-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 ABF-01 SAM-01 AGR-05 DODE-00 PA-01

PRS-01 /103 W

----- 003099

R 181318Z FEB 76

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 6044

INFO USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

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E. O. 11652: N/A

TAGS: EFIN, ETRD, PO

SUBJ: EXPORT INCENTIVES: NEW PORTUGUESE EXCHANGE RATE
AND PRODUCTION COST INSURANCE SCHEMES

REF: STATE 012860

SUMMARY: GOP-OWNED INSURANCE COMPANY NOW PREPARING IMPLEMENTING REGULATIONS AND PROCEDURES FOR EXPORT INSURANCE PROGRAMS CREATED IN DECEMBER 1975 TO COVER RISKS OF EXCHANGE RATE FLUCTUATION AND INCREASED PRODUCTION COSTS. DRAFT REGULATIONS SCHEDULED TO BE PRESENTED TO FINANCE MINISTRY AND, IF APPROVED, WILL BE DESCRIBED AT MARCH 15 OECD MEETING. PROGRAM DETAILS FOLLOW. END SUMMARY.

1. COMMATT MET WITH PRESIDENT OF MANAGEMENT COMMISSION AND COORDINATOR OF COMMERCIAL SERVICES OF THE GOP-OWNED CREDIT INSURANCE COMPANY (CIC) (COMPANHIA DE SEGURO DE CREDITO) TO
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DISCUSS DETAILS OF SUBJECT INSURANCE PROGRAMS. DECEMBER 22,

1975 DECREE-LAW ESTABLISHED BROAD GUIDELINES FOR PROGRAMS. CIC NOW ENGAGED IN DRAFTING IMPLEMENTING REGULATIONS AND PROCEDURES. CIC OFFICIALS HOPE TO PRESENT DRAFT REGULATIONS TO FINANCE MINISTRY DURING WEEK OF FEBRUARY 22. IF APPROVED IN TIME BY GOP, NEW REGULATIONS WILL BE EXPLAINED TO OECD AT MARCH 15 MEETING TO DISCUSS EXPORT INCENTIVES. FOLLOWING ARE DETAILS ON NEW PROGRAMS.

2. EXCHANGE RATE INSURANCE: ACCORDING TO GUIDELINES, EXPORTER MAY PURCHASE INSURANCE AGAINST EXCHANGE RATE FLUCTUATION OF FOREIGN CURRENCY ON CONTRACTS DENOMINATED IN FOREIGN CURRENCY. COVERAGE IN NORMAL CASES WILL BE UP TO 90 PERCENT OF LOSS ALTHOUGH IT WILL BE EXTENDED TO 100 PERCENT IN EXCEPTIONAL CASES. RISK PERIOD IS BETWEEN DATE OF PURCHASE OF INSURANCE AND EXPIRATION DATE OF POLICY. INSURANCE WILL NOT BE GRANTED IF RISK CAN BE COVERED BY OTHER MEANS SUCH AS A) SPECIAL CLAUSES IN EXPORT CONTRACT; B) ESTABLISHMENT OF FIXED EXCHANGE RATE AGREEMENT BETWEEN PORTUGAL AND COUNTRY OF IMPORTER; AND C) FORWARD BUYING AND SELLING OF FOREIGN CURRENCIES. THIS INSURANCE COVERAGE CAN ONLY BE BOUGHT IN CONJUNCTION WITH CIC COVERAGE OF EXPORT CREDIT RISK. DRAFT REGULATIONS STATE THAT SHOULD EXCHANGE RATE OF FOREIGN CURRENCY CHANGE IN FAVOR OF PORTUGUESE EXPORTER, HE MUST REIMBURSE CIC FOR UP TO 90 PERCENT OF PROFIT. THIS CLAUSE DESIGNED TO PREVENT SPECULATION. CIC OFFICIALS STATED PREMIUM STRUCTURE NOT YET DETERMINED ALTHOUGH THEY EXPECTED IT TO BE SIMILAR TO RATES USED BY FRENCH. MINIMUM SIZE OF CONTRACT EXPECTED TO BE 100,000 ESCUDOS (ABOUT DOLS 4000).

3. INCREASED COST OF PRODUCTION PROGRAM: ACCORDING TO GUIDELINES, EXPORTER MAY PURCHASE INSURANCE AGAINST LOSSES STEMMING FROM "ABNORMAL OR UNFORESEEABLE INCREASES IN PRODUCTION COSTS, CAUSED BY CHANGES IN ECONOMIC CONDITIONS AFFECTING EXPORT CONTRACTS." DRAFT REGULATIONS INTERPRET PRODUCTION COSTS AS WAGES, TRANSPORTATION, AND RAW MATERIAL COSTS AMONG OTHERS, BUT NOT INCREASED COSTS DUE TO STRIKES, RIOTS OR RISKS COVERED BY OTHER TYPES OF INSURANCE (SUCH AS EXCHANGE RATE FLUCTUATION). GUIDELINES PROVIDE THAT EXPORTER CAN INSURE AGAINST INCREASED PRODUCTION COSTS OF LIMITED OFFICIAL USE

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MORE THAN 2 PERCENT AND LESS THAN 10 PERCENT OVER INCREASES FORESEEN AT THE DATE OF CONTRACT SIGNING, WHEN THERE IS NO COST ESCALATION CLAUSE IN CONTRACT. SHOULD THE CONTRACT CONTAIN ESCALATION CLAUSE, INSURANCE CAN BE BOUGHT FOR INCREASES BETWEEN 2 PERCENT AND 10 PERCENT OVER LIMITS OF CLAUSE. (PREAMBLE OF DECREE-LAW NOTES THAT MOST CONTRACTS SIGNED WITH EASTERN EUROPE DO NOT CONTAIN COST ESCALATION CLAUSES.)

4. ACCORDING TO CIC OFFICIALS, CAPITAL FOR THESE TWO PROGRAMS WILL COME FROM CENTRAL GOVERNMENT BUDGET; CIC WILL NOT BE GRANTED A SPECIFIC FUND. PROGRAMS ARE EXPECTED TO FINANCE THEMSELVES ULTIMATELY, BUT WILL BECOME OPERATIONAL AS SOON AS APPROVED BY MINISTRY OF FINANCE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, EMERGENCY PLANNING, FOREIGN EXCHANGE, INSURANCE LAW
Control Number: n/a
Copy: SINGLE
Draft Date: 18 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LISBON01051
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760061-0461
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760240/aaaabiri.tel
Line Count: 122
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION COME
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 12860
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 30 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 MAR 2004 by greeneet>; APPROVED <01 JUL 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXPORT INCENTIVES: NEW PORTUGUESE EXCHANGE RATE AND PRODUCTION COST INSURANCE SCHEMES
TAGS: EFIN, ETRD, PO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006